

Message Text

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ACTION EA-09

INFO OCT-01 IO-13 ISO-00 FEA-01 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-07 FRB-01 H-02 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15
STR-04 ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 OMB-01
XMB-04 OPIC-06 /117 W

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 1498

INFO US MISSION GENEVA 390

US DEL MTN GENEVA

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E.O. 11652: N/A

TAGS: EFIN, ETRD, GATT, MTN, EMIN, ECON, KS

SUBJECT: ROKG INTRODUCES MAJOR TARIFF REFORM

REF: 76 SEOUL 7307

SUMMARY: THE ROKG HAS INTRODUCED THE FIRST STAGE OF A MAJOR TARIFF REFORM, EFFECTIVE JANUARY 1, 1977. AIMED AT SIMPLIFYING AND MODERNIZING KOREA'S TARIFF SYSTEM, THE REFORMS REDUCE TARIFF CATEGORIES FROM 17 TO 11 BUILT AROUND A CENTRAL OR "UNITARY RATE", INITIALLY SET AT 20 PERCENT. LOWER RATES ARE PROVIDED FOR SPECIAL TREATMENT IMPORTS WHILE HIGHER RATES ARE MAINTAINED EITHER FOR PROTECTION OF DOMESTIC INDUSTRY OR TO DISCOURAGE IMPORT OF NON-ESSENTIAL OR LUXURY GOODS. FURTHER CHANGES ARE PROGRAMMED TO OCCUR OVER THE FIVE YEAR PERIOD, 1977-1981. THIS CABLE DESCRIBES THE MAJOR FEATURES OF THE NEW TARIFF SYSTEM. OUR PRELIMINARY ASSESSEMENT INCLUDING IDENTIFICATION OF CHANGES AFFECTING MAJOR IMPORTS FROM THE U.S., WILL BE FORWARDED SHORTLY.

1. ACTING ON THE BASIS OF AMENDMENTS TO THE KOREAN CUSTOMS LAW ENACTED NEAR THE CLOSE OF THE RECENTLY-CONCLUDED NATIONAL UNCLASSIFIED

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ASSEMBLY SESSION (SEE PARA 4, REFTTEL), THE ROKG HAS IMPLEMENTED THE FIRST STAGE OF A MAJOR TARIFF REFORM, EFFECTIVE JANUARY 1, 1977. IMPLEMENTING DECREES ALSO PROVIDE FOR FURTHER CHANGES TO TAKE PLACE OVER THE NEXT FIVE YEARS.

2. MINISTRY OF FINANCE OFFICIALS (MOF) STATE THAT THE PRINCIPAL INTENT OF THE REFORM IS TO SIMPLIFY AND MODERNIZE KOREA'S

TARIFF SYSTEM. CONCEPTUALLY THE NEW TARIFF SYSTEM IS BUILT AROUND A CENTRAL OF UNITARY RATE, INITIALLY SET AT 20 PERCENT. AGAIN CONCEPTUALLY, VARIATIONS FROM THIS RATE ARE INTENDED TO TO FALL INTO THREE BROAD CATEGORIES (1) DUTY FREE AND 10 PERCENT RATES FOR SPECIAL TREATMENT" IMPORTS (LARGELY ESSENTIAL RAW MATERIALS OR OTHER BASIC COMMODITIES), WITH 20 AND 30 PERCENT RATES FOR A SUB-GROUP OF CAPITAL EQUIPMENT IMPORTS; (2) 60, 40 AND 30 PERCENT RATES FOR PROTECTION OF DOMESTIC INDUSTRIES WHICH ARE SCHEDULED TO DECLINE AUTOMATICALLY TO 40, 30 OR THE UNITARY RATE OF 20 PERCENT BY 1981; AND (3) 80, 100 AND 150 PERCENT RATES FOR IMPORT - RESTRICTED OR IMPORT - BANNED ITEMS, I.E. NON-ESSENTIAL OR LUXURY IMPORTS.

3. MOF OFFICIALS STRESS THAT WHILE THEY HAVE TRIED TO FOLLOW THE ABOVE CONCEPT AS A GENERAL PRINCIPLE, THE NEW SCHEDULES EFFECTIVE JANUARY, 1, 1977 CONTAIN NUMEROUS EXCEPTIONS. FIRST, SOME OF THE CHANGES NECESSARY TO MOVE SPECIFIC ITEMS INTO THE CATEGORIES IN WHICH THEY SHOULD PROPERLY BE CLASSIFIED HAVE BEEN DEFERRED. SECONDLY, TO PROVIDE A TRANSITION PERIOD, A SCHEDULE OF TEMPORARY RATES HAS BEEN ESTABLISHED FOR 28 FOUR-DIGIT CATEGORIES, LARGELY COMPRISED OF IMPORTANT RAW OR BASIC MATERIALS. THE TEMPORARY RATES IN THIS SCHEDULE, RANGING FROM DUTY FREE TO 15 PERCENT, RISE BY ANNUAL STAGES TO THE HIGHER RATES SPECIFIED IN THE GENERAL SCHEDULE. THE TARGET YEARS FOR REACHING THE GENERAL SCHEDULE RATES VARY FROM 1978 TO 1981. FINALLY, APPARENTLY UNDER PRESSURE FROM AFFECTED LOCAL INDUSTRIES, MOF PLANS TO REINSTATE THE FLEXIBLE TARIFF SCHEDULE FOR SIX KEY IMPORTS EFFECTIVE JANUARY 15. THESE RATES ARE ALSO SPECIAL LOWER RATES, BUT ARE PROVIDED UNDER THE UNCLASSIFIED

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LEAGAL AUTHORITY BY WHICH THE PRESIDENT CAN TEMPORARILY RAISE OR LOWER TARIFF RATES BY 50 PERCENTAGE POINTS AND ARE OF A MORE INDEFINITE DURATION.

4. AS A FURTHER SIMPLIFICATION, THE NEW GENERAL TARIFF SCHEDULE HAS BEEN RECLASSIFIED INTO 2,521 ITEMS AS COMPARED TO THE 3,996 ITEMS CONTAINED IN THE OLD SCHEDULE. RATE CATEGORIES IN THE GENERAL SCHEDULE, EXCLUDING THE TEMPORARY SCHEDULES, HAVE BEEN REDUCED FROM 17 TO 11, CONSISTING OF THE DUTY FREE RATE AND 8 AD VALOREM RATES PLUS A CATEGORY OF SPECIFIC RATES FOR A HANDFUL OF ITEMS, AND ONE CASE WHERE EITHER A SPECIFIC OR AN AD VALOREM RATE MAY BE APPLIED (DEER ANTLERS).

5. THE GREATEST NUMBER OF CHANGES REPORTEDLY OCCURRED IN MOVING ITEMS AT THE LOWER END OF THE OLD SCHEDULE TO THE 20 PERCENT RATE AND IN MOVING A NUMBER OF ITEMS CARRYING 80 PERCENT AND ABOVE RATES TO THE "PROTECTIVE RATE" CATEGORIES, I.E., 30, 40 AND 60 PERCENT. MOF ORIGINALLY PROJECTED THAT THE NET REVENUE EFFECT OF THESE CHANGES WOULD INCREASE CUSTOMS REVENUES BY 8.8

PERCENT IN 1977 (A PROJECTED \$699 MILLION UNDER THE NEW SCHEDULES AS COMPARED TO A PROJECTED \$642 MILLION UNDER THE OLD SCHEDULES). THE REINSTATEMENT OF THE FLEMIBLE TARIFF SYSTEM FOR SIX IMPORTS IS EXPECTED TO REDUCE THAT FIGURE BY \$21 MILLION, LOWERING THE PROJECTED NET REVENUE EFFECT FROM \$57 MILLION TO \$36 MILLION, OR AN INCREASE OF 5.6 PERCENT IN PROJECTED CUSTOMS REVENUES.

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LAB-04 NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15
STR-04 ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 OMB-01
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R 140157Z JAN 77
FM AMEMBASSY SEOUL
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6. IN DISCUSSING THESE REFORMS, MOF OFFICIALS HAVE INDICATED THAT THEY INTEND TO CONTINUE TO MOVE RATES TOWARDS THE CENTRAL OR UNITARY RATE OVER TIME. WHILE THIS RATE IS INITIALLY SET AT 20 PERCENT, THEY CONSIDER IT QUITE POSSIBLE THAT THIS CENTRAL RATE MAY BE LOWERED TO 15 OR EVEN 10 PERCENT IN THE FUTURE. PROTECTIVE RATES WILL BE MAINTAINED AS APPROPRIATE, BUT THESE RATES WILL ALSO BE GRADUALLY ADJUSTED DOWNWARD AS CONDITIONS PERMIT. WHILE THE VIRTUALLY PROHIBITIVE RATES OF 80,100 AND 150 PERCENT WILL ALSO BE MAINTAINED TO EITHER STRONGLY DISCOURAGE CLEARLY NON-ESSENTIAL, LUXARY IMPORTS OR FOR SYMBOLIC PURPOSES WHERE THE IMPORT IS BANNED IN ANY EVENT, THE NUMBER OF ITEMS CARRYING THOSE RATES WILL BE SIGNIFICANTLY REDUCED. THE GENERAL POLICY WILL BE TO RELY MUCH MORE HEAVILY ON INTERNAL CONSUMPTION TAXES, APPLIED EQUALLY TO IMPORTS AND DOMESTICALLY PRODUCED GOODS, TO RESTRAIN LUXURY CONSUMPTION (OR PURCHASE OF LUXURY DURABLES). SOME GENERAL CATEGORIES WHERE THIS HAS ALREADY OCCURRED WITH THE JANUARY 1, 1977 CHANGES INCLUDE REFRI-GERATORS (FROM 80 PERCENT TO 40 PERCENT), PROCESSED FOODS (FROM 80 TO 60 PERCENT) AND WEARING APPAREL (FROM 100 TO 60

PERCENT); HOWEVER, IMPORTS OF THESE ITEMS CONTINUE TO BE
PROHIBITED OR SEVERELY RESTRICTED FOR NOW BY NON-TARIFF IMPORT
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BARRIERS.

7. COMMENT: WE EXPECT TO OBTAIN MATERIALS TO ENABLE US TO
COMPLETE OUR PRELIMINARY ASSESSEMENT OF THESE REFORMS AND
IDENTIFY SPECIFIC CHANGES FOR AT LEAST MAJOR IMPORTS FROM THE
US. THE TASK IS COMPLICATED BY THE FACT THERE ARE NO MATERIALS
AVAILABLE WHICH SEPARATELY IDENTIFY THE ITEMS FOR WHICH RATES
HAVE BEEN CHANGED WITH THE EXCEPTION OF SOME SELECTIVE EXAMPLES.
WHILE WE HAVE NOT YET MADE AN INDEPENDENT VERIFICATION, MOF
OFFICIALS HAVE ASSURED US THAT ALL COMMITMENTS ON GATT-BOUND
ITEMS HAVE BEEN OBSERVED. AN ENGLISH TRANSLATION OF THE NEW
SCHEDULES IS EXPECTED TO BE AVAILABLE IN FEBRUARY. COPIES
WILL BE FORWARDED AT THAT TIME.

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Message Attributes

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